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TRANSPORTATION  
COMMISSION

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## *Memorandum*

TO: Partnership Board

DATE: July 25, 2005

FR: Steve Heminger

W. I. 1512

RE: **SAFETEA Third Cycle STP/CMAQ Funding Policies**

### **A. Background**

MTC staff is preparing to develop Third Cycle policies for FY 2007-08 and FY 2008-09 STP/CMAQ funding which will guide the programming of the final two years of TEA 21 Reauthorization. Continuing past practice, staff is recommending to proceed with the advance programming of funds to ensure a continuous and seamless programming process for federal funding. Historically, MTC has programmed STP/CMAQ funds well in advance of the apportionment year to enable the region to commit funds to projects as soon as funding is made available, and allow sponsors sufficient time to proceed with the projects and meet federal and state (AB 1012) funding deadlines. This strategy of advance programming has been beneficial to the Bay Area by accelerating project delivery and allowing the region to obtain additional obligational authority from other regions in California.

The Commission has already programmed four of the six years of TEA 21 Reauthorization: First Cycle, including the Augmentation Round, represented fiscal years 2003-04 and 2004-05, and Second Cycle represented FY 2005-06 and 2006-07. Third Cycle will complete the regional programming of TEA 21 Reauthorization, representing the final two years FY 2007-08 and 2008-09.

Several issues need to be addressed as the region proceeds with the programming of Third Cycle STP/CMAQ funding: 1) determine a reasonable revenue estimate for the TEA 21 Reauthorization and the funding available for the Third Cycle programming, 2) identify the programming policies and commitments adopted by the Commission to date that will need to be carried into Third Cycle, 3) analyze any additional needs for existing commitments, and determine appropriate funding adjustments to prior commitments if necessary, and 4) discuss the timing/strategy for addressing future needs with any additional funding from Reauthorization above the current commitment levels.

### **B. Revenue Estimate Funds Available for Third Cycle**

MTC staff anticipates overall programming capacity ranging from \$890 million to \$1.0 billion in STP/CMAQ funding for the SAFETEA period based on authorization levels proposed in Congress by the House of Representatives and Senate respectively. An additional \$27 million in Transportation Enhancement (TE) funding is available through the STIP for the Transportation for Livable Communities (TLC) programs. A total of \$605 million in programming

commitments has been made against this funding through the Second Cycle, leaving additional funding on the order of \$300 - \$400 million to be distributed in Third Cycle.

In addition, due to programming to estimates that were lower the actual revenues, the region did not fully program the expected funding for 2005-06 and FY 2006-07. Therefore, Third Cycle will include an additional \$50 million, to address the under-programming, and ensure the region is able to use its entire annual obligation authority for fiscal years 2005-06 and 2006-07.

Given the uncertainties with the final STP/CMAQ funding revenues to be made available for programming, and the unfortunate situation where the region is proposing to commit the entire six years of funding prior to authorization of the six-year Act, it appears prudent to proceed with a conservative Third Cycle programming round at roughly \$300 million. This would set expectations at a more manageable level should actual revenues be on the low side, for it tends to be easier to add rather than delete projects.

Following final authorization and determination of final estimates, MTC would program a 'Bonus' round of funding to address any additional funding capacity. While there is much uncertainty until a final bill is signed, the bonus round is expected to be at least \$50 million. The roughly \$50 million in potential 'new' revenue is CMAQ – making the use of the funds rather restricted.

### **C. SAFETEA Current Programming Commitments – Policy Issues**

There were preliminary discussions about the structure of the Third Cycle program during development of Second Cycle. Table 1 reflects those commitments as embodied in Resolution 3615, which established a priority list for \$266 million in Third Cycle commitments. The rationale for establishing this framework is that a number of programs – such as TLC/HIP and Regional Bike/Pedestrian were being delayed to accommodate obligation authority (OA) carryover from TEA-21, as well as critical rehabilitation needs, and stalled State Transportation Improvement Program (STIP) project needs.

This section outlines the background and any policy issues associated with the Third Cycle programming categories identified in MTC Resolution 3615.

#### ***1. Clean Air***

A total of \$4 million was originally set-aside for the Clean Air Program for Third Cycle. The Air Quality Management strategies, Clean Air in Motion (CAM) program, and four-year commitment for the Eastern Solano CMAQ program have been fully programmed. The remaining Third Cycle commitments contribute to the annual "Spare the Air" Program at a cost of \$2 million over the Third cycle period.

#### **Proposal:**

1. Continue the \$1 million annual contribution to the BAAQMD for the Spare the Air program, as previously committed.
2. Continue augmentation to Solano-Napa Commuter Information (SNCI) at \$150,000 per year.
3. Expand the Spare the Air – Free Transit Commute Campaign for the duration of TEA-21 Reauthorization. This requires an additional \$5 million annually for four years beginning in FY 2005-06. These efforts are meant to address the Bay Area's non-attainment status for the

8-hour ozone standard. The program's funding needs would be reconfirmed based on the evaluation of program effectiveness after the summer 2005 "Spare the Air" season.

**For Discussion:**

1. Continuation of the Free Transit Commute Campaign will require an additional \$18 million in CMAQ funding above existing commitments to the Spare the Air program for a total of \$20 million.
2. Further discussion about the use of CMAQ funds generated by the Sacramento Air Basin is necessary.

**2. Regional Operations**

The projects receiving funding in this category in First and Second Cycles include TransLink®, 511 TravInfo®, Regional Rideshare, TETAP, PTAP, Arterial Signal Re-timing, Marketing, Transit Info, Incident Management, Freeway Operation Systems, and Performance Monitoring. There was \$44 million set-aside for this program in Resolution 3615, including an increase to Rideshare to replace CMAQ funding redirected to the Regional Transit Information System (RTIS) during Second Cycle. There is no need to increase funding for Regional Operations at this time.

**Proposal:**

1. Maintain funding for Regional Operations at the Second Cycle Resolution 3615 commitment level of \$44 million.
2. Funding Augmentation for Solano-Napa Commuter information is now part of the Clean Air Program, rather than the Regional Operations Program.

**3. CMA Planning Activities**

MTC continues to fund CMA planning activities. As in the past, 3% of the *estimated* STP revenues are dedicated to the CMAs for planning. During the First and Second Cycles, each county CMA was guaranteed a minimum of \$240,000, an increase from the minimum threshold of \$140,000 provided during TEA 21. The CMA's are provided either the county's population shares of 3% of the STP funds or \$240,000 whichever figure is higher. In addition, \$1.35 million (\$150,000 for each of the county CMAs) is targeted for transportation land use planning coordination with MTC under the Transportation for Planning and Land Use Solutions Program (T-PLUS). A total of \$10 million was committed for CMA planning activities in Resolution 3615.

**Proposal:**

1. Revise CMA county distributions to reflect January 2005 population figures from DOF.
2. Maintain current 3% - \$240,000 minimum threshold.

**For Discussion:**

1. Some CMAs have requested additional funding to accommodate increased workload associated with the transfer of the Lifeline program.
2. North Bay counties believe the \$240,000 minimum threshold is insufficient to cover all cost associated with planning, programming and monitoring activities required by MTC. They are reviewing their costs and will be providing a proposal to possibly increase the minimum threshold.

***4a. Local Streets and Roads Shortfalls***

Based on T2030, the local streets and roads rehabilitation program distributed funding to counties based on their proportional share the region's Metropolitan Transportation System shortfall.

There have been lively discussions in the Local Streets & Road (LSR) Committee regarding the equity in the distribution of the funding. Subsequently, the LSR Committee has reached a consensus on a new model to distribute the funding, taking into consideration other factors such as population, lane mileage, arterial/ collector maintenance shortfalls, and jurisdictions' performance in managing its pavement needs. Since this new model involves "winners" and "losers", the Cycle 1 Augmentation distributed money using a "hybrid" formula – 50% original MTS and 50% new model. For the Third Cycle, the LSR Committee is requesting that the hybrid formula be similarly used for fund distribution in the Local Streets and Roads Rehabilitation Shortfall Program. Thereafter the committee has suggested that the new allocation model be used to distribute funding for this program. Resolution 3615 identified \$57 million for Third Cycle for the LSR shortfall program.

**Proposal:**

1. At the recommendation of the LSR Committee, and with concurrence and approval of the Partnership Board, apply the hybrid formula used for the First Cycle Augmentation for the distribution of funds for Third Cycle.

**For Discussion:**

1. The new model as well as the recommended distribution for Third Cycle should be reviewed and approved by the Partnership.
2. As noted in the Transit section below, some of the Transit Rehabilitation funds could be shifted from transit to streets and roads in the near term.

***4b. Transit Capital Shortfall***

In Second Cycle, \$55 million in STP funding was dedicated to augmenting transit capital priority funding in order to meet the transit capital shortfalls identified in T2030. The Second cycle policy was amended in July to memorialize the agreement that 80%, or \$45.4 million, would be directed to BART to meet major fleet replacement needs with the residual of \$9.4 million going to the remaining transit operators that have score 16 funding needs after considering FY 2005-06 and FY 2006-07 FTA funds, prioritizing those that had score 16 capital shortfalls in T2030.

However, the \$9.4 million for projects with a score 16 shortfall is being deferred into later years, given that there are no remaining score 16 shortfall needs following the FTA programming. The FTA call for projects has indicated that there may be no score 16 shortfalls for FY 2007-08, and it is possible there are no shortfall needs in FY 2008-09 as well, other than those projects capped through the FTA process. Therefore, we may want to shift this rehabilitation funding – roughly \$20 million – after considering BART's 80% to streets and roads. There could be a payback from future streets and road rehab to transit, once the score 16 replacement needs ramp up again.

**Proposal:**

1. Proceed with the funding of BART's 80 percent of the shortfall, consistent with the long-term BART car replacement agreement.

**For Discussion:**

1. Consider the following options for the remaining Transit shortfall funding, considering the region must use the OA on an annual basis:

**Option a)** Place the remaining Transit shortfall funding in reserve (approximately \$4 million annually) until transit shortfalls are realized – possibly not until FY 2009-10 (TEA-4).

**Option b)** Enter into similar long-term rehabilitation / vehicle replacement agreements with other agencies such as SF Muni, Caltrain or AC Transit.

**Option c)** Increase the LSR shortfall in the near term, with payback to Transit at a later date.

**Option d)** Direct the funding initially to BART, and subsequently redirect funding back to other transit properties when the rehab needs begin cycling and shortfalls materialize.

**Option e)** Direct the funding to score 16 projects that have been capped through the FTA programming process. Examples are bus fleet replacements in excess of \$20 million or fixed guideway rehabilitation projects in excess of \$13 million.

**Option f)** Direct funding to lower scoring transit rehabilitation projects. Transportation 2030 focused on fleet and guideway rehabilitation at score 16, but needs exist for other projects such as facilities and stations.

## 5. TLC/HIP

The TLC/HIP category encompasses TLC/HIP Planning Grants, Regional TLC, Housing Incentive Program, the County TLC/HIP, and the nascent Station Area Plan Program. Based on T2030, MTC reserves \$27 million annually in STP, CMAQ, and TE funds for this program. However, in recognition of the economic situation the region faced two years ago, only \$36 million was programmed in Second Cycle, with \$18 million deferred to Third Cycle. Therefore, in Second Cycle, \$72 million (\$27 million for the two years plus \$18 million deferral) was identified as the funding target for Third cycle.

### Proposal:

1. The cost of preparing Station Area Plans is roughly \$500,000 per station. There have been 34 stations identified along the corridors that do not presently meet the Resolution 3434 thresholds. Therefore, the cost for the Station Area Plan program is roughly \$17 million with \$2.8 million funding the pilot program in Second Cycle. The remaining cost to cover the Stations Area Planning effort is roughly \$14 million. Staff is proposing to increase the TLC/HIP set-aside by \$7 million, with the remaining \$7 million coming from the existing funding levels established for the TLC and HIP programs.

## 6. Regional Bike/Pedestrian Program

This program was envisioned to receive \$32 million for the four- year period from FY 2005-06 through 2008-09. For the Second cycle, a single call for projects for the regionally competitive program took place last winter and \$8 million (25% of the program) was programmed in June 2005. In the Third Cycle, the remaining \$24 million (\$8 million was deferred from Second cycle) will fund the County Regional Bicycle and Pedestrian Program, being programmed at the discretion of the county Congestion Management Agencies.

### Proposal:

1. Continue commitment of \$24 million for Regional Bike/Pedestrian Program in Third Cycle.

### For Discussion:

1. Some counties may be allowed to swap STP/CMAQ with local funds.

## 7. Lifeline

With the Commission action in April 2005, the Lifeline program received both a funding boost and an administration overhaul with responsibility for administration shifted from MTC to the Congestion Management Agencies. In Cycle 2, fund swaps from the Clean Air Program yielded \$2.5 million in CMAQ funding for lifeline. Resolution 3615 did not identify any funding commitments for Lifeline in Third Cycle. The \$15 million program approved in April contemplated an additional \$4 million from Third Cycle, subject to completion of Third Cycle programming.

### Proposal:

1. Provide additional \$4 million for Lifeline in Third Cycle.

**Third Cycle Funding Proposal Summary - Table 1**

Table 1. (in millions)	Original 3 <sup>rd</sup> Cycle Commitments Res. No. 3615	Proposed Increase (Decrease)	Proposed 3 <sup>rd</sup> Cycle Commitments
Funding Categories			
1. Clean Air <sup>1</sup>	\$4	\$18	\$22
2. Regional Operations <sup>2</sup>	\$44	-	\$44
3. CMA Planning Activities	\$10	-	\$10
4a. Local Streets and Road Shortfall <sup>3</sup>	\$57	-	\$57
4b. Transit Capital Shortfall <sup>3</sup>	\$55	-	\$55
5. TLC/HIP <sup>4</sup>	\$72	\$7	\$79
6. Regional Bike/Ped. <sup>5</sup>	\$24	-	\$24
7. Lifeline <sup>6</sup>	-	\$4	\$4
<b>TOTAL Commitments:</b>	<b>\$266</b>	<b>\$29</b>	<b>\$295</b>

### Footnotes:

<sup>1</sup> Clean Air Program: Continuation of Free Transit Commute beyond FY 2004-05 – Additional \$5 million annually from FY 05-06 through FY 08-09.

<sup>2</sup> Regional Operations Program: Minor adjustment for rounding error.

<sup>3</sup> Transit/local road rehab is 1/25<sup>th</sup> annually of T-2030 commitment level. Minor adjustment for rounding error.

<sup>4</sup> TLC/HIP totals \$108 for the 4 year period, or 4 x \$27 annually under TEA-21 Reauthorization. 3<sup>rd</sup> Cycle includes \$21 million in TE funding from the STIP, including \$3 million in STIP funds deferred by the CTC. Increase in funding is for Station Area Planning.

<sup>5</sup> Regional Bike/Ped. recovers to \$24 in Third Cycle, or 4 x \$8 annually under TEA-21 Reauthorization

<sup>6</sup> Lifeline: additional \$4million for lifeline

## Future Programming

Following final authorization and determination of final estimates, MTC staff is proposing to program a ‘bonus’ round of funding to address any additional funding capacity. While there is much uncertainty until a final bill is signed, the bonus round is expected to be at least \$50 million. The roughly \$50 million in potential ‘new’ revenue is CMAQ – making the use of the funds rather restricted. The tentative schedule is to begin the ‘bonus’ funding discussions in Summer 2006.

### **Schedule**

Outlined below is the schedule for the development of the Third Cycle funding policy. The schedule takes into account discussions at the Partnership level, with other MTC Committees, and sufficient opportunities for the public to comment.

#### **Schedule and Next Steps for Third Cycle Funding Policy**

July - Sep 2005	Partnership Committees review TEA 21 Reauthorization and Potential Third Cycle Issues & Policies
Wednesday, Oct 12, 2005	Referral of Third Cycle Policies and Project Selection Criteria to the Commission for Approval
Wednesday, Oct 26, 2005	Commission Adoption of Third Cycle Policies and Project Selection Criteria